



Executive Staff:

Richard Stensrud
Chief Executive Officer

Jeffrey W. States
Chief Investment Officer

James G. Line
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

Members of the Board of Retirement

James A. Diepenbrock, President
Appointed by the Board of Supervisors

Keith DeVore, 1st Vice President
Elected by Miscellaneous Members

John B. Kelly, 2nd Vice President
Appointed by the Board of Supervisors

Dave Irish, Director of Finance
Ex-Officio

Winston H. Hickox
Appointed by the Board of Supervisors

Alice Jarboe
Elected by Miscellaneous Members

William D. Johnson
Elected by Safety Members

Nancy Wolford-Landers
Elected by Retired Members

Robert Woods
Appointed by the Board of Supervisors

John Conneally
Elected by Safety Members

William Cox
Elected by Retired Members

MINUTES

RETIREMENT BOARD MEETING, THURSDAY, APRIL 16, 2009

The regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18th Floor, Sacramento, California, on Thursday, April 16, 2009, and commenced at 1:01 p.m.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

MINUTES:

2. The Minutes of the March 19, 2009 regular meeting were approved on Motion by Mr. Irish; Seconded by Mr. Johnson. Motion carried (7-0).

CONSENT MATTERS:

Items 3-5, 7-15

The Consent matters were acted upon as one unit upon a Motion by Mr. DeVore; Seconded by Mr. Woods. Motion carried (8-0).

3. ABE, Eva J.: Granted a nonservice-connected disability retirement.

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4. HUSLEY, Michael B.: Granted a service-connected disability retirement.
5. YANG, Neng: Granted a nonservice-connected disability retirement.
6. BOMBOLA, Brian J.: Moved to the Closed Session, Disability Matters.
7. JORDAN, Christine M.: Adopted the findings and recommendation of the referee that the applicant is not disabled and denied service-connected disability retirement.
8. Approved the recommended nominations for the Board of Directors of the State Association of County Retirement Systems (SACRS) for 2009-2010 and recommendations on other matters presented for a vote by the SACRS membership at the 2009 SACRS Spring Conference.
9. Approved the renewal of SCERS' fiduciary liability insurance coverage as recommended by the County Risk Management Office.
10. Approved the County's request for a second prepayment of employer contributions for the 2008-2009 fiscal year.
11. Adopted Resolution No. 2009-07 approving the renewal of the contract with Nossaman LLP to provide real estate-related legal services.
12. Adopted Resolution No. 2009-08 approving amendments to the Limited Partnership Agreement for the Stone Tower Structured Credit Recovery Fund.
13. Adopted Resolution No. 2009-09 approving amendments to the Promissory Note issued by European Credit (Luxembourg) S.A.
14. Received and filed the Asset Allocation and Portfolio Rebalancing Report for the Quarter Ended March 31, 2009.
15. Received and filed the March 2009 Monthly Investment Manager Compliance Report and Watch List.

CLOSED SESSION:

DISABILITY MATTERS:

6. Moved from Consent Matters at the request of Mr. Johnson.

BOMBOLA, Brian J.: Adopted the findings and recommendation of the referee that the applicant is not disabled and denied service-connected disability retirement. Motion carried (8-0).

LEGAL MATTERS:

16. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Government Code Section 54956.9(a)
Securities and Exchange Commission vs. WG Trading Investors, L.P., et al
U.S. District Court, Southern District of N.Y., Case No. 09 CIV 1750.

The Board received a report from Counsel.

PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

17. Government Code Section 54957(b)(1)
Title: Chief Executive Officer.

The Board discussed the Chief Executive Officer's performance.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

18. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

At Mr. Stensrud's request, General Counsel James Line presented a status report on subrogation matters.

Mr. Stensrud reported that a proposed Request for Proposals (RFP) for general investment consulting services would be presented for the Board's consideration at the May Board Meeting.

At Mr. Stensrud's request, Chief Investment Officer Jeffrey States reported that staff and Mercer Investment Consulting would be presenting a report on SCERS' fixed income investment structure at the May Board Meeting.

Mr. Stensrud reported that SCERS' request for authorization for two new internal investment staff positions would be considered by the Board of Supervisors on May 19th.

Mr. Stensrud reminded the Board that a Special Board Meeting was being considered for May 8th, for the purpose of receiving a report from The Segal Company regarding the projected impact of the downturn in the investment markets on future costs and the funded status of the plan.

Mr. Stensrud reported that SCERS' website was undergoing various upgrades, including the addition of an 'Education' page and a 'News and Developments' page.

Mr. Stensrud advised the Board that the County was moving forward with implementation of a mandatory furlough program for unrepresented management employees and other related employee groups. Mr. Stensrud noted that the program was intended to be 'retirement neutral' in that it would not alter retirement service credit, retirement compensation, and retirement contribution levels. Discussion followed.

INVESTMENT MATTERS:

19. John Powell of State Street Securities Finance presented a report regarding the securities lending program in which SCERS participates.

Mr. Powell outlined the problems in the investment markets over the last twelve months, including: (a) Record price declines; (b) Consolidation of major broker-dealers; (c) Contraction in the credit markets; and (d) Reduced trading in fixed income instruments.

Mr. Powell described the impact of such events on counterparty risk, noting that there had been no defaults by borrowers. Mr. Powell further noted that if a counterparty had failed to return a borrowed security, State Street would indemnify SCERS by obtaining a replacement security using the collateral for the trade plus their own capital if necessary.

Mr. Powell also described the impact of the noted events on the investment of the cash received as collateral for the loaned securities. Mr. Powell explained that SCERS bears the investment risk if the value of the collateral should fall below the amount that must be returned to the borrower upon return of the borrowed security. Mr. Powell noted that SCERS had not realized any losses in this respect, but that the credit crisis had caused some highly rated and well performing mortgage-backed and asset-backed securities in the collateral investment pool to be priced below par and their intrinsic value. Mr. Powell noted that this meant there were unrealized losses in the investment pool that could result in losses for SCERS if there was a substantial withdrawal by securities lending participants and a need to sell securities in the collateral pool to cover those withdrawals before the true value of the securities had been recovered.

Substantial discussion followed, including consideration of: (a) Whether State Street was considering placing any restrictions on the ability of lenders to withdraw from the program; (b) How State Street proposes to manage a situation where a significant portion of the collateral pool needed to be liquidated; and (c) How State Street would reduce the loss exposure and assure that such a problem did not arise again.

20. Tom Lightvoet of Mercer Investment Consulting presented an analysis by the Mercer Sentinel Group on the status of SCERS' securities lending program.

Mr. Lightvoet explained that as part of its review of SCERS' securities lending program, Mercer had: (a) Evaluated the quality of the program run by State Street; (b) Evaluated the holdings in the collateral investment pool; (c) Quantified the size of any potential losses due to a decline in the value of the assets in the pool; and (d) Developed recommendations on

whether SCERS should consider withdrawing from securities lending or modify the nature of its participation in securities lending.

Mr. Lightvoet reported that State Street has one of the top-rated securities lending programs, and unlike some securities lending programs, State Street had experienced no borrower defaults and had not had to recognize losses in the relevant collateral pool due to defaulting securities. Mr. Lightvoet noted, however, that there were some issues related to collateral value, collateral coverage and interest rate exposure that warranted attention.

Mr. Lightvoet noted that the overall quality of the investments in the collateral pool is high, and that all assets appear to be performing and current. Mr. Lightvoet reported that if this continues, SCERS can avoid any unrealized losses by holding the securities to maturity. Mr. Lightvoet noted, however, that given the virtual shut-down of the short term fixed income markets, if State Street were forced to liquidate securities before maturity, it would result in losses.

Mr. Lightvoet outlined the merits and risks if SCERS were to: (a) Remain in the current securities lending program; (b) Remain in securities lending but move from a pooled collateral approach to a separate account; and (c) Cease securities lending, recall existing loans, and return collateral to borrowers. Mr. Lightvoet noted that if SCERS elected to exit securities lending immediately the current potential losses in the collateral pool would be realized. Mr. Lightvoet further noted that immediate realization of losses could be avoided by taking a 'slice' of the assets in the collateral pool but investment risk would remain as the assets would need to be managed until they could be liquidated.

Mr. Lightvoet and Chief Investment Officer Jeffrey States reported that after weighing the options, it was their recommendation that SCERS remain in the current securities lending program, as it offered the best way to avoid realizing any losses due to the extraordinary developments in the markets. Mr. Lightvoet and Mr. States noted, however, that SCERS should remain in securities lending only if it receives income from the program commensurate with the risks taken, and in that regard the interest rate exposure should be monitored closely.

Substantial discussion followed, after which it was the consensus of the Board that no action needed to be taken regarding the securities lending program at this time.

The presentation materials for Items 19 and 20 were received and filed on Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (8-0).

The meeting was adjourned at 3:18 p.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore, John Kelly, Dave Irish, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox.

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MEMBER ABSENT: Winston H. Hickox.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey W. States, Chief Investment Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Julie Rucker, Senior Personnel Specialist; Diana Ruiz, Deputy County Counsel; Tom Lightvoet, Mercer Investment Consulting; Yolanda Diaz and John Powell, State Street; Matthew Schumacher, David Allen & Associates.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
James A. Diepenbrock, President

DATE: _____

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.